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No. 87-1029

In The

Supreme Court of the United States

October Term, 1987

MILLER INSITUFORM, INC.,
and THOMAS E. SMITH,

vs. *Petitioners,*

INSITUFORM OF NORTH AMERICA, INC.,
WILLIAM C. MILLER, and IRA B. MILLER,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

BRIEF OF RESPONDENT INSITUFORM OF NORTH AMERICA, INC.

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QUESTIONS PRESENTED FOR REVIEW

The petition seeks review of a single issue:

> Was Insituform of North America, Inc. properly granted summary judgment because its termination of the patent license agreement did not violate Section 2 of the Sherman Act?

PARTIES TO THE PROCEEDINGS

Petitioners Miller Insituform, Inc. and Thomas E. Smith were appellants below. Respondents Insituform of North America, Inc., William C. Miller, and Ira B. Miller were appellees below.

Insituform of North America, Inc. ("INA") is a publicly-held corporation. INA is aware of affiliation by contract or common ownership with the following publicly-held corporations:

Insituform Group, Ltd.
Insituform East, Inc.
Insituform Gulf South, Inc.
Insituform Mid-America, Inc.
Insituform Southeast, Inc.

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BRIEF OF RESPONDENT INSITUFORM OF NORTH AMERICA, INC.

STATEMENT OF THE CASE

A. Nature of the Case.

Respondent Insituform of North America, Inc. ("INA") is the exclusive United States licensee of a patented process for rehabilitating sewers and other pipelines ("the Insituform Process"). Petitioner Miller Insituform, Inc. ("MII") was at one time the exclusive sublicensee of INA for the use of the Insituform Process in Tennessee, Kentucky, and southern Ohio. Petitioner Thomas E. Smith ("Smith") is the president and a shareholder of MII.

On appeal, this case involves the single claim by MII that INA violated Section 2 of the Sherman Act by terminating the sublicense agreement between them. (15 U.S.C. § 2). INA submits that no violation of Section 2 occurred because, among other reasons, under the patent laws, INA has a "legal monopoly" of the Insituform Process in the United States. By virtue of its patent rights, INA has the right to prevent anyone from using the Insituform Process without its consent, including the right to terminate its relations with those it had previously sublicensed.

B. Course of Proceedings and Disposition Below.

The complaint brought by Petitioner MII and Petitioner Smith, a forty-nine percent shareholder of MII, alleged violations of Sections 1 and 2 of the Sherman Act (15 U.S.C. § 1 and § 2) and Section 3 of the Clayton Act (15 U.S.C. § 14) against Respondent INA and its President, Jack Massar, as well as pendent breach of

contract claims arising under state law against INA. (R. 1: Complaint; R. 42: First Amendment to Complaint).[1] Jurisdiction was invoked on the basis of a federal question arising under the antitrust laws, 15 U.S.C. § 15 and § 26.

On a first motion for summary judgment, the District Court dismissed Defendant Massar and all federal antitrust claims asserted by Petitioners against INA except the following:

1. Whether the termination of the sublicense agreement constituted monopolization or an attempt to monopolize under Section 2 of the Sherman Act; and

2. Whether INA illegally tied the purchase of materials necessary for use in the Insituform Process to the sublicense agreement in violation of Section 2 of the Sherman Act or Section 3 of the Clayton Act.

(R. 20: Memorandum; R. 21: Order entered March 27, 1985).

Following the completion of factual discovery, INA sought summary judgment on the two remaining federal claims against it.[2] (R. 52: Motion of Respondent

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[1] The complaint also alleged a pendent state law claim for misrepresentation against Respondents William C. Miller (another shareholder of MII) and Ira B. Miller (a former shareholder of MII). (R. 1: Complaint at p. 12-13).

[2] In that motion, INA also challenged the standing of Petitioner Smith to bring an antitrust action and requested the Court to dismiss the pendent state law claim for breach of contract.

INA for Summary Judgment). To avoid the possible existence of a disputed issue of fact concerning the market share of INA in a properly-defined market, for purposes of the summary judgment motion only, INA asked the court to assume *arguendo* that the product market only included the Insituform Process, and that INA had 100% of the market.[3]

At the hearing on the motion, Petitioners conceded that they could not prove an unlawful tying arrangement. (R. 81: Transcript of Hearing at p. 21). The District Court found that the termination of MII's sublicense did not violate Section 2 (*Id.* at p. 2-4) and

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[3] Relevant to Petitioners' claim of monopolization was the issue of whether INA possessed monopoly power in the relevant market. Petitioners alleged that the relevant product market was the Insituform Process itself (to the exclusion of the many other methods of pipeline rehabilitation) and that INA, through its patent rights, controlled 100% of this market. Petitioners did not present any facts to support this allegation. INA denied this market definition and presented facts showing that there are many alternative methods for repairing, replacing, or rehabilitating pipelines, all of which are competitive with the Insituform Process. (R. 55: Affidavit of Jack Massar at ¶ 18). Petitioner Smith and another representative of MII, also admitted the substitutability of these other methods. (R. 48: Smith Deposition at p. 79-83, 85; R. 55: Ledbetter Deposition at p. 10, 22). There is also evidence in the record that while the United States pipeline rehabilitation industry probably involved nearly $1 billion annually, INA's sublicensees performed less than $20 million of rehabilitation work in calendar year 1984, their best year to that point. (R. 55: Affidavit of Jack Massar at ¶¶ 19-20).

accordingly dismissed the remaining antitrust claims as well as the pendent state law claims. (R. 80: Order entered March 19, 1986). The *only* issue raised by Petitioners at the Court of Appeals was the dismissal of the Section 2 claim. The Sixth Circuit Court of Appeals affirmed in an opinion published at 830 F.2d 606 (6th Cir. 1987).

C. Statement of Relevant Facts.

The Insituform Process is a method of rehabilitating sewer and waste water pipelines, primarily patented by U.S. Patent No. 4,064,211. (R. 55: Massar Affidavit at ¶ 3). INA is the exclusive licensee of Insituform International, N.V., the owner of the patent, for the use of the patented process in the United States. (*Id.*). INA does not itself practice the patented process but, instead, has entered into approximately ten sublicense agreements. (*Id.* at ¶ 4). These agreements grant the sublicensees the exclusive right to use the patented process in specific geographical territories throughout the United States. (*Id.*). Territorial limitations are enforced by requiring licensees who perform work in another's territory to make a "crossover payment" to the sublicensee in whose territory the work is done. (*Id.*).

INA and MII entered into a sublicense agreement for the exclusive territory of Tennessee, Kentucky, and southern Ohio. (*Id.* at ¶ 5). The agreement required MII to establish that it had a net worth of $500,000 within

90 days.[4] (*Id.*). INA repeatedly requested MII to satisfy this requirement. After these requests went unheeded for a number of months after the deadline, INA terminated the sublicense agreement because of MII's failure to fulfill this express condition. (R. 55: Massar Affidavit at ¶ 11).

After the termination of MII's sublicense agreement, INA took no immediate action to relicense MII's former territory. (*Id.* at ¶ 14). Two months later, INA was approached by one of its sublicensees, Insituform East, which requested the southern Ohio portion of the territory. (*Id.*). After nearly a year of discussion, INA licensed southern Ohio to Insituform East. (*Id.*). INA had no ownership interest in or control of Insituform East. (*Id.*). The remainder of the territory, Tennessee and Kentucky, remained unlicensed as of the date of the summary judgment motion. (*Id.* at ¶ 15). Those

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[4] INA explained the purpose of the net worth requirement as follows:

> INA requires a minimum net worth of $500,000 because it wants to insure that its sublicensees can adequately develop the territories they have been granted. In fact, paragraph XII of the sublicense agreement provides that the sublicensees will retain a net worth of at least $500,000 at all times to assure its financial ability to meet its obligations under the agreement.

(R. 15: Affidavit of Jack Massar at ¶ 5).

states were "open territory" and all licensees were free to perform any work available there.[5] (*Id.*).

REASONS FOR DENIAL OF THE WRIT

None of the reasons for granting a writ of certiorari are present here. (U.S. Sup. Ct. R. 17). The decision of the Sixth Circuit is consistent with this Court's prior decisions as well as decisions of other circuits. *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *United States v. Westinghouse Electric Corp.*, 648 F.2d 642 (9th Cir. 1981); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195 (2d Cir. 1981), *cert. denied*, 455 U.S. 1016 (1982).

Petitioners simply refuse to accept the fact that allegations of breach of contract or fraud by a patent holder, without more, do not give rise to antitrust claims. As noted by the Sixth Circuit, the law recognizes that certain conduct by a patent holder can violate the antitrust laws. For example, a patent holder

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[5] INA informed the trial court, after filing the motion, that it had subsequently sublicensed the remainder of MII's former territory (Kentucky and Tennessee) to a partnership, Insituform Mid-South, consisting of two existing licensees of INA (Insituform East, Inc. and Insituform Southeast, Inc.), with INA owning a fifteen percent interest. (R. 77: INA's Reply Memorandum at p. 5).

can violate the antitrust laws by attempting to extend its power to any market beyond that created by the patent grant. *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 129 (9th Cir. 1954). Petitioners argue that the termination of the license was a "deliberate" breach of contract or was somehow fraudulent and, therefore, gives rise to an antitrust claim. Such conduct, however, has never been found to be the basis of a violation of the antitrust laws; nor should it be. Such conduct does not increase the economic power of a patent monopolist beyond the scope of the patent grant. Termination of a license, even if in breach of contract or somehow fraudulent, is simply not the kind of misuse of patent rights that can give rise to a Section 2 claim.

Petitioners' argument that the patent law only gives the patent holder a right to exclude anyone *other than a licensee* is without a legal basis. The decision to "exclude" a person by refusing to license him is no different than the decision to exclude him by termination of his license, although the latter conduct could raise breach of contract claims. Exclusion by either means is the power given by the patent grant. *Smith International, Inc. v. Hughes Tool Co.*, 718 F.2d 1573 (Fed. Cir.), *cert. denied*, 464 U.S. 996 (1983).

CONCLUSION

Petitioners' claims of fraud and breach of contract are state law claims. Respondents' termination of Petitioner's license does not constitute a misuse of its patent power prohibited by the antitrust laws. The decisions of this Court and federal appeals courts are in accord. No reason exists for this Court to grant the writ.

Respectfully submitted,

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